



City of San Diego

CARL DEMAIO
CITY COUNCILMEMBER – DISTRICT 5

DONNA FRYE
CITY COUNCILMEMBER – DISTRICT 6


MEMORANDUM

DATE: September 17, 2010

TO: Mayor and City Council

FROM: Councilmember Donna Frye
Councilmember Carl DeMaio

RE: City-County Redevelopment Area (CCDC) Tax Sharing Agreement



The County of San Diego has the lead governmental obligation for public health and welfare through social services.

The City of San Diego will soon take up the issue of providing a downtown service center the homeless population. While the significance of a brick and mortar location cannot be downplayed, providing social services to complement sleeping accommodations is also important.

We believe that the County should be a more active participant and source of funding for these services to the homeless population. To this point, a long-standing contractual agreement between CCDC and the County may also lay the foundation for an increased level of County involvement that at the very least should be explored.

Requested Action #1: Conduct an Audit of County Compliance with Cooperative Agreement

California Redevelopment Law allows for the diversion of property tax increment generated within a project area from local government entities to the respective redevelopment agency overseeing a project area.

In 1992, the Redevelopment Agency of the City of San Diego and the County of San Diego entered into an "Agreement for Cooperation" (Agreement) that spells out the sharing of property tax revenue generated within the downtown project area.¹

The terms of the cooperative agreement specifically earmark "40% of the amount paid to the County each fiscal year" for construction and/or maintenance expenses associated with "justice, health, social and other facilities," as well as "justice, health, social and other programs, located within the Project Area or directly serving the residents and employees of the Project Area..."

The Agreement calls for the first \$800,000 of restricted funds paid to the County annually to go toward debt service on the Hall of Justice, with a "carry forward" amount accumulating in each year where the court payment exceeds these restricted funds. These funds appear to have only been used for debt service for the court building, with approximately \$2.5 million in cumulative payments to the County that exceed annual debt service.

Importantly, the estimated values of shared property tax revenues laid out in the Agreement project a sharp increase (nominal and proportional) in the amount of property tax revenue going to the County within the next five fiscal years. For example, the County share of property tax revenues is projected to increase from \$8 million in FY 15, to \$18 million in FY 2016. Further, a new and/or expanded Agreement will have to be negotiated as part of any effort to increase the CCDC tax increment Cap.

Given the extensive period of time that has elapsed under the current agreement and the projected increase in tax sharing payments, we request that the City's Audit Committee docket the consideration of adding an audit of the historical compliance of the Agreement at an upcoming meeting.

Recognizing the limited resources available, as well as the process already in place for determining the composition of the City Auditor's work plan, we request that CCDC present options for providing the City Auditor with supplemental funds from the CCDC budget at the same meeting.

Requested Action #2: Review Annual Reports and Proposals

The Agreement also calls for providing the City with an annual report "describing the expenditures made, and the facilities or programs for which they were made, by [the] County from monies paid to County" under the Agreement. Along these lines, the Agreement states that the City "shall be given the opportunity to review and comment on the proposed facilities or programs," and "shall have the right to propose...from time

¹ See "Agreement for Cooperation Between Redevelopment Agency of the City of San Diego and the County of San Diego (Centre City Redevelopment Project)." Document No. 1911, County Contract No. 72681-R. May 22, 1992.

to time, facilities and programs to be financed with monies made available under this Agreement.”

As part of the audit process, we request that the compliance of the County with providing the annual reports be examined, as well as the historical funding requests made by the City pursuant to the Agreement.

Requested Action #3: Monthly Report to the City Council by CCDC on Current Negotiations with County

In order to provide policy direction, we request that CCDC provide the City Council (acting as the Redevelopment Agency) with a report on the status of negotiations with the County for funding services in the downtown project area. Further, projected property tax revenues under a new tax sharing agreement with the County, and their proposed uses, must be approved by the City Council in the event that the Tax Increment Cap is increased.

The proposed audit and review of tax revenue projections will provide the City with increased awareness of opportunities that may be available to tackle expenses in the Centre City Redevelopment Area that cannot be directly funded through CCDC, namely the ongoing costs associated with homeless prevention programs at a downtown homeless shelter. Further, the exploration of this possibility is pertinent to the ongoing study of increasing the CCDC tax increment Cap.

CC: CCDC Board of Directors
San Diego County Board of Supervisors
City Auditor Eduardo Luna
Audit Committee Members
City Attorney Jan Goldsmith